1. Overview

1.1 Purpose and Scope

These procedures apply to BNZ Investment Services Limited (BNZISL) Managed Investment Schemes (MIS) and BNZ’s Discretionary Investment Management Service (DiIMS). In this document, references to BNZ refer (as appropriate) to BNZ and BNZISL. This document has been prepared taking into consideration Group policies including ESG (Environmental, Social and Governance) Risk Principles, Sensitive Sector Risk Appetite and BNZ’s Credit Policy. Specific procedures in this document may deviate from Group policy where such deviation makes sense from an investment perspective.

This document sets out BNZ’s approach to Responsible Investing (RI). RI considerations fall into three distinct but complementary areas:

1. Active ownership;
2. ESG integration; and
3. Legal/social responsibility.

As a result of one or more of these RI considerations, the primary actions taken are company engagement, or portfolio under or overweighting securities, relative to a benchmark. In certain cases, a sector or security may be excluded from investment consideration.

These procedures are reviewed on an ongoing basis by the BNZ Investment Solutions Team, with a formal BNZ Investment Review Committee review annually.

1.2 Responsible Investment Philosophy

BNZ believes that integrating environmental, social and governance factors (ESG) into our investment process is important as these factors are drivers of sustainable long-term returns. In general, BNZ RI activities are expected to support positive long-term outcomes for investors. In rare circumstances, it may exclude companies or sectors from consideration for investment based on non-investment-related factors. It is its strong belief that RI procedures which lean too heavily on exclusions are likely to result in sub-optimal investment and social outcomes.

BNZISL is a signatory to the Principles of Responsible Investment (PRI) and these Principles help to guide its approach to RI.

1.3 Context

As a provider of investment products to its customers, BNZ is responsible for the construction of these investment products (ie the asset allocations and selection of investment managers). For each asset class, BNZ appoints one or more investment managers. In turn, the investment managers are responsible for the selection of individual securities. Therefore, the primary role of this document is to provide direction in the selection of managers and in setting expectations, boundaries and reporting commitments for those managers. BNZ expects its managers to work collaboratively with BNZ in the implementation of its procedures and will consider the RI capability, flexibility, and resources of managers in its appointment decisions.

1.4 Climate Strategy

BNZ is a signatory to the Climate Leaders Coalition (CLC). The goal of the CLC is to help New Zealand transition to a low emissions economy.

Climate change represents a unique and significant potential risk to investment portfolio outcomes. BNZ includes consideration of climate and carbon-related risk for all investment portfolios, with a view to positioning for the long-term transition to a low-emissions economy.

This is in addition to expecting its active managers to take climate-related risks into account within their security level ESG-risk analysis.
2. RI areas

2.1 Active ownership and industry engagement

BNZ engages with each of its managers on their active ownership and stewardship practices. In general, BNZ has a preference for engagement (including proxy voting) to be undertaken by the investment managers it has appointed. Investment managers are generally best placed to make a judgement on resolutions as they are closest to the companies in which they invest and the specific issues, including those related to ESG, on which engagement is necessary and appropriate. Managers’ ability and resource in this area are an important consideration in appointment decisions and they are required to provide regular reports on their engagement activities.

From time-to-time BNZ may engage directly with investee companies, either alongside or independent of its investment managers. BNZ recognises the benefits of collaborative action and will actively consider opportunities to participate in investor-led joint engagement activities, with due consideration to customer benefit, impact and likelihood of success.

BNZ engages in an ongoing process of review of its RI practices relative to emerging best practice. To facilitate this, BNZ actively reviews opportunities to build knowledge and broader industry engagement. Currently this includes the use of Sustainalytics for independent research, and membership of the PRI.

2.2 ESG Integration

BNZ believes that as part of a robust investment framework, ESG factors should be considered by the active managers it appoints for the following reasons:

1. Consideration of ESG factors should lead to a more complete fundamental analysis, including the early detection of risks that could otherwise be overlooked, thereby resulting in better investment decisions being made. Over the long term, this should contribute to higher returns and less risk.

2. Good management of ESG factors (including governance, employee relations, safety, and environmental risks) is material to the long-term successful performance of any business. By not managing these factors effectively, there is a greater likelihood of poor returns.

Active managers may choose to hold a security despite the presence of certain risks, including ESG risks, if they deem the potential return adequately compensates for this risk. Active managers may avoid holding a security altogether, despite it not being excluded by BNZ, due to ESG risks.

Note that where BNZ uses passive investment strategies, it currently does not require fundamental analysis or portfolio management decisions based on ESG factors.

BNZ expects all its managers to provide RI policies as part of the investment due diligence process. Managers will be expected to demonstrate compliance with those policies at regular intervals, but no less frequently than annually. BNZ monitors and assesses, but does not dictate to managers, the form or content of their RI policies.

BNZ will assess (through its asset consultant¹) the extent to which an investment manager incorporates ESG factors into its investment process. The insights from this assessment are considered when a decision is made to appoint a new investment manager or retain an existing investment manager.

2.3 Legal/Social Responsibility

BNZ strives to be a responsible corporate citizen. BNZ considers New Zealand law, the broader regulatory environment, and BNZ’s Corporate Mission in the composition of its investment opportunity set. These factors form an important part of BNZ’s Exclusions Framework noted below.

3. Portfolio expectations

BNZ monitors and reports on carbon exposure at the portfolio level. Portfolio level exposure to carbon-risk will fluctuate over the short term due to manager choices, market movements, and regulatory action. BNZ’s expectation is that, over the medium to long term, all its investment portfolios will exhibit:

- lower exposure to potential ‘stranded assets’ than an otherwise comparable benchmark portfolio;
- lower carbon intensity than an otherwise comparable benchmark portfolio;
- a declining trend in exposure to potential ‘stranded assets’ and portfolio carbon intensity; and
- an increasing trend in exposure to renewable energy.

¹ JANA Investment Advisers Pty Limited.
4. Sensitive sectors

BNZ regards excluding industry sectors or securities from consideration for investment as a last resort. Sensitive sectors are not excluded from consideration but are given explicit attention to ensure ESG risks are being managed. This may include increased focus on sub-sectors within an industry and higher likelihood of engagement activities. On rare occasions specific firms within a Sensitive sector may be excluded due to laggard behaviour or lack of engagement on ESG issues relevant to that Sector. The current list of Sensitive Sectors is included as Appendix 1.

5. Exclusions

5.1 Exclusions framework

It is BNZ’s preference to invest via mandates with managers wherever possible. Where mandates are in place with investment managers, BNZ expects to be able to exclude certain sectors. Where BNZ gains its exposure via commingled funds, it may not be feasible to apply exclusions due to the commingled nature of the investment. The decision to exclude particular sectors takes account of the following considerations, to the extent that they are applicable:

1. The regulatory environment.
2. The materiality of the issue.
3. The impact on the risk and return of BNZ’s investment products.
4. The effectiveness of engagement.
5. Alignment with BNZ’s brand, values, and lending policies.

With respect to the Excluded Sectors:

• Depending on the sector, a materiality threshold may apply.
• No investment is to be made in companies that have a controlling interest in a subsidiary, or joint venture, with material involvement in the Excluded Sectors.

The current list of Excluded Sectors, and primary reason for exclusion², is attached as Appendix 2.

5.2 Security exclusions

In exceptional circumstances a security which is not part of a Sensitive or Excluded Sector may be removed from consideration for RI reasons. These could include significant and repeated violations of international norms which do not fall into a specific industry sector, or singular actions of an objectionable nature. This includes, but is not limited to, expectations around modern slavery, broader human rights, corruption/financial crime, and animal welfare.

5.3 Limitations

In addition to internal resources, BNZ employs an asset consultant and a specialist ESG research provider in support of its RI activities. However, this document recognises that, like many areas of investing, measuring ESG risk, product involvement, and company behaviour remains an inherently inexact science.

From time to time, BNZ may inadvertently hold a security which, according to this document, it should not hold. The BNZ process acknowledges the possibility for error, with the expectation that any error in the application of these procedures is corrected in a positive and timely manner as and when identified to the BNZ Investment Solutions Team.

BNZ also recognises that, for data availability or operational reasons, certain managers may not be able to precisely implement exclusions at the level of materiality specified by BNZ. In these cases, BNZ will work with the manager to implement an acceptable compromise, taking into account the relevant costs and potential impacts on client outcomes.

² Any decision to exclude may encompass multiple considerations, both for and against. For brevity and clarity, Appendix 2 specifies the primary reason for exclusion only.
6. Implementation

Significant changes to these procedures are to be communicated in a timely way to the relevant fund managers and a plan for implementation agreed with those managers. Changes are to be implemented in such a way as to manage the potential impact on investment returns, but within 6 months of notification. Minor changes are to be implemented within 3 months.
Appendix 1 – Sensitive Sectors

- Financial institutions – with specific focus on predatory lending practices.
- Airlines – with specific focus on carbon intensity of operations.
- Entertainment – with specific focus on practices in gambling and adult entertainment.
- Alcoholic beverages
- Palm oil – with specific focus on practices in the management of sensitive natural environments.

Appendix 2 – Excluded Sectors

<table>
<thead>
<tr>
<th>Product</th>
<th>Description</th>
<th>Materiality</th>
<th>Primary reason for exclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cluster munitions</td>
<td>Companies which are actively involved in the development or production of</td>
<td>Any exposure</td>
<td>Regulatory environment Cluster Munitions Prohibition Act 2009.</td>
</tr>
<tr>
<td>Landmines</td>
<td>Companies which are actively involved in the development or production of</td>
<td>Any exposure</td>
<td>Regulatory environment United Nations Convention on the Prohibition of the Use, Stockpiling,</td>
</tr>
<tr>
<td>Nuclear weapons systems</td>
<td>Companies which are actively involved in:</td>
<td>Any exposure</td>
<td>Regulatory environment Treaty on Non-Proliferation of Nuclear</td>
</tr>
<tr>
<td></td>
<td>1. the manufacture or testing of nuclear weapons systems; and/or</td>
<td></td>
<td>Weapons and the Nuclear Free Zone, and the Disarmament and Arms Control Act 1987.</td>
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<tr>
<td></td>
<td>2. management of facilities used to assemble or refurbish them; and/or</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. manufacture of the delivery systems for nuclear weapons.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tobacco</td>
<td>Companies which are actively involved in the manufacture of tobacco or</td>
<td>Any exposure</td>
<td>BNZ lending policy</td>
</tr>
<tr>
<td></td>
<td>tobacco products.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assault weapons</td>
<td>Companies which are actively involved in the manufacture of assault</td>
<td>Any exposure</td>
<td>Regulatory environment Arms (Prohibited Firearms, Magazines and Parts) Amendment Act 2019.</td>
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<tr>
<td></td>
<td>weapons for civilian use.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whaling</td>
<td>Companies which are actively involved in hunting whales for commercial</td>
<td>Any exposure</td>
<td>Regulatory environment International Whaling Commission moratorium on commercial whaling.</td>
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<tr>
<td></td>
<td>purposes, or the processing of whale meat.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td>Companies which are actively involved in oil &amp; gas projects within the</td>
<td>&gt;20% Revenue</td>
<td>BNZ lending policy</td>
</tr>
<tr>
<td></td>
<td>Arctic or Antarctic. Companies which are actively involved in tar sands</td>
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<td></td>
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<tr>
<td></td>
<td>oil extraction.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thermal coal</td>
<td>Companies which are actively involved in the extraction or burning of</td>
<td>&gt;20% Revenue</td>
<td>BNZ climate commitment</td>
</tr>
<tr>
<td></td>
<td>thermal coal.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>